

## **DISCLAIMER**

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### **APPLICATION OF**

**SHENANDOAH VALLEY ELECTRIC  
COOPERATIVE**

**CASE NO. PUE000747**

**For a general rate increase**

### **APPLICATION OF**

**SHENANDOAH VALLEY ELECTRIC  
COOPERATIVE**

**CASE NO. PUE000748**

**For approval of a functional  
separation plan**

### **REPORT OF DEBORAH V. ELLENBERG, CHIEF HEARING EXAMINER**

**November 2, 2001**

On December 29, 2000, Shenandoah Valley Electric Cooperative (“Shenandoah” or the “Cooperative”) filed its application for revised retail rates, fees, and changes to its terms and conditions for supplying electric distribution service. According to the application, the Cooperative filed the application after considering its financial position and § 56-582 A of the Virginia Electric Utility Restructuring Act (“Restructuring Act”)<sup>1</sup> which authorizes the establishment of capped rates to be effective January 1, 2001, and expiring on July 1, 2007. Rates established in the rate case will also serve as the starting point for the functional separation plan required by § 56-590 of the Code of Virginia. As provided by § 56-582 A 3, the proposed rates and charges took effect on January 1, 2001, on an interim basis and subject to refund.

The application sought to increase the Cooperative’s base annual revenues by \$2,830,443, an increase of 6.76% over existing adjusted annual revenues. The application also sought to make permanent, six interim rate surcharge riders that the Cooperative had in effect. The net sum of those six riders was \$+0.00191 per kilowatt hours sold. The Cooperative proposed to change its line extension policy and increase service charges and fees to recover the costs of those activities. The proposed increase to fees and service charges accounted for \$63,871 of the total annual increase.

The proposed rates were designed to increase the annual revenues received from the Residential class by \$2,532,057, or 9.77%; from the Seasonal Residential class by \$176,146, or 31.11%; and from the Yard Lighting schedules by \$60,297, or 26.46%. The application also included changes to the rate structure of the General Service Schedule to make it sensitive to a low load factor and to the Large Power Service Schedule to make it sensitive to a high load factor. The rate changes proposed for the Peak Control and Church classes may also change each consumer’s

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<sup>1</sup>Chapter 23 of Title 56 of the Code of Virginia, § 56-576 et seq.

billing based on load characteristics but would effect no change in the total annual revenues from those classes.

On December 29, 2000, the Cooperative also filed an application for approval of a functional separation plan pursuant to Virginia Code § 56-590. As required by the Functional Separation Regulations, 20 VAC 5-202-40 B 8, the Cooperative filed its proposed unbundled rates, terms and conditions. The proposed unbundled rates include a wires charge filed pursuant to §§ 56-583 and 56-584 of the Code of Virginia. The Cooperative also addressed default service to be provided pursuant to § 56-585 E of the Code of Virginia.

On January 11, 2001, the Cooperative's interim tariffs were accepted effective for service rendered on and after January 1, 2001, subject to refund, as required by Virginia Code § 56-582 A 3.

On January 19, 2001, the Commission entered an Order for Notice and Hearing in which it directed the Cooperative to give notice, established a procedural schedule, and assigned the matter to a hearing examiner. A Correcting Order was issued on January 24, 2001, to correct an error in the heading of the prescribed notice to be published in newspapers. On February 8, 2001, the Commission issued an Order for Notice and Comment and Establishing Revised Procedural Schedule. That Order addressed the Cooperative's application for approval of a functional separation plan. The Commission directed the Cooperative to publish notice and invited comments or requests for hearing. The Commission provided that the Cooperative's functional separation plan should be considered in conjunction with the rate case but if no requests for hearing were received, the application could be decided on the basis of the papers filed therein. Among other things, the Order scheduled a hearing for July 24, 2001, prescribed revised notice requirements, and established filing dates for prefiled reports, testimony and exhibits.

Shenandoah filed a motion on June 21, 2001, to request a continuance and to allow the filing of supplemental testimony to address rate changes implemented by Old Dominion Electric Cooperative ("ODEC"). Specifically, ODEC had reduced its demand rates and increased its monthly fuel factor effective April 1, 2001, and Shenandoah requested more time to consider the effect of ODEC's changes. The motion was granted, the hearing scheduled for July 24, 2001, was retained for the limited purpose of receiving comments from public witnesses, and another hearing was scheduled for September 10, 2001.

On June 29, 2001, Shenandoah also filed a Motion for Implementation of TIER Credit Billing Factor on an Expedited Basis. On July 10, 2001, the Commission Staff filed its Response in opposition to the Motion. The Cooperative filed a reply and supplemental testimony on July 12, 2001, in support of the proposed mechanism. By Ruling dated July 20, 2001, however, interim implementation of the proposed mechanism was denied. The Ruling noted that the rates in effect for service on and after January 1, 2001, were subject to refund should such a mechanism ultimately be approved in this case, but Staff had raised serious concerns about the mechanism that should be fully addressed prior to implementing any mechanism to account for the ODEC changes. On August 3, 2001, the Cooperative advised the Commission that it was no longer seeking approval of the TIER mechanism.

The Commission also received several letters and written comments in this case from second-home owners addressing the Cooperative's seasonal rate. They all consider their classification discriminatory and contend that it is unfair that they are charged a higher rate than the residential class customer. Comments were also received from Barbara Harrison on June 29 and August 3, 2001; H. J. Cruman on July 19, 2001; Allen Martin on July 20, 2001; Jamie Habecker on July 26, 2001; and Laura Enteen on August 14, 2001. Each asserted that second-home owners in Shenandoah's service territory are unfairly discriminated against.<sup>2</sup> Staff witness Henderson also testified that telephone comments were received from six customers.<sup>3</sup>

A public hearing was convened as noticed on July 24, 2001, for the sole purpose of receiving public comment on the rate application. The proof of publication and service was marked as Exhibit A and admitted into the record. No public witnesses appeared at that hearing. On September 10, 2001, a hearing to receive evidence on the applications was convened. James C. Dimitri, Esquire, and M. Renae Carter, Esquire, appeared as counsel for the Cooperative. Wayne Smith, Esquire, appeared as counsel for the Commission Staff. One public witness, Barbara Harrison, who had also filed written comments, appeared to express concern with the seasonal rate schedule. Transcripts of the hearings are filed with this Report.

## **SUMMARY OF THE RECORD**

The Cooperative's last general rate increase was effective for service rendered on and after November 27, 1990. In that case the Commission approved an increase in revenue based on a rate of return of 9.21% and a modified Times Interest Earned Ratio ("TIER") of 2.49. In this case, the first rate case in over ten years, the Cooperative's earnings for Virginia operations based on the adjusted test year ending December 31, 1999, produced an adjusted TIER of 1.58 and a rate of return of 4.61%. The Cooperative represented in its application that its proposed increase would produce a rate of return on rate base of 8.95% and an adjusted TIER of 2.68.

The Cooperative filed the direct testimony of Allen R. Ritchie, vice president of finance and administration and assistant secretary-treasurer of the Board of Directors of the Cooperative,<sup>4</sup> and the supporting schedules required by the Commission's Rules in support of its application. Mr. Ritchie filed supplemental testimony on July 13, 2001<sup>5</sup> to address recent changes in demand charges from ODEC and the mechanism that was proposed to account for those changes in this rate case. Shenandoah later withdrew its request for the TIER credit mechanism. Mr. Ritchie also addressed transition costs that the Cooperative anticipated it would incur as it prepared for competition.<sup>6</sup>

One public witness, Barbara Harrison, offered extensive comments on the Cooperative's Seasonal Residential rate. She contends that grouping customers in a different classification from the Residential class simply because the premises served are second homes is unfair. She

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<sup>2</sup>Two other letters were received after the record closed.

<sup>3</sup>Exhibit RMH-7, at 6.

<sup>4</sup>Exhibit ARR-2, at 1.

<sup>5</sup>Exhibit ARR-3.

<sup>6</sup>Id.

recommends the Commission merge the Residential and Seasonal Residential classes, or in the alternative, change the qualifying criteria for service under the Residential class.

Staff filed the testimony of Patrick W. Carr, a principal public utility accountant in the Commission's Division of Public Utility Accounting; Mary E. Owens, a principal financial analyst in the Division of Economics and Finance; and Rosemary Henderson, a senior utilities analyst in Division of Energy Regulation. Staff testified that they had been engaged in extensive discussions with the Cooperative on a number of issues, and that agreement in principle had been reached. Staff witness Carr prepared several accounting statements and schedules in accordance with the agreement. Staff proposed an increase in annual revenues of \$2,233,322<sup>7</sup> based on an actual TIER range of 2.00 to 2.50, with rates set at the top of the range or 2.50 as recommended by Staff witness Owens. Margins for 2001 would thus be \$6,032,415. In Ms. Owens' opinion, that level of margins would satisfy § 56-231.33 of the Code of Virginia by allowing the Cooperative to maintain its property in a sound physical and financial condition, maintain its financial integrity at a level that would allow it to raise capital on reasonable terms, and recover additional amounts of capital to meet any debt indenture requirements.<sup>8</sup>

Ms. Henderson addressed the Cooperative's cost of service study, proposed revenue allocations, changes in rate design and rules and regulations for service, and the effects of proposed changes on the Cooperative's customers.<sup>9</sup> Ms. Henderson testified that Staff used different billing determinants than the Cooperative, and proposed to allocate the increases to the Residential, Seasonal Residential and Yard Lighting classes and impose no increase on the other classes.<sup>10</sup> Ms. Henderson also recommended that future cost of service studies should separate Virginia non-jurisdictional customers from jurisdictional customers; no action should be taken to redefine or eliminate the Seasonal Residential class pending completion of load studies performed by ODEC; the Cooperative should file a report with the Commission summarizing and comparing the results of the load studies of the Seasonal Residential and Residential classes and make any recommendations for changes at that time; a reduced \$1.00 AMR metering rate should be available to Seasonal Residential customers; and the \$15.00 switching fee proposed by the Cooperative in its supplemental testimony should be evaluated in the context of tariffs submitted for retail choice and not in the context of this rate case.<sup>11</sup>

Mr. Ritchie filed rebuttal testimony in response to Staff. It was his testimony that for purposes of resolving this case, the Cooperative agreed that the adjusted additional gross annual revenue requirement of \$2,233,322 for its Virginia jurisdictional system, and total revenue requirement of \$43,363,531, based on a TIER of 2.5, yielding a rate of return of 10.31%, are reasonable.<sup>12</sup> He offered testimony that Shenandoah also agreed with the modified rate design recommended by Staff witness Henderson to settle this case with one exception. The Cooperative proposes to use its energy rate of \$0.01815 with proposed revenues of \$89,509 for Schedule PC-1, Peak Control,<sup>13</sup> and Staff agreed.<sup>14</sup> The Cooperative agreed with Staff's changes to the terms and conditions of service, including removing the switching fee and the suggested reduction to the AMR fee for Seasonal Residential customers. Mr. Ritchie advised that the Cooperative disagrees with the

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<sup>7</sup>Exhibit PWC-5, at 19.

<sup>8</sup>Exhibit MEO-6, at 2.

<sup>9</sup>Exhibit RMH-7, at 1.

<sup>10</sup>Id. at 6.

<sup>11</sup>Id. at 23-24.

<sup>12</sup>Exhibit ARR-4, at 1.

<sup>13</sup>Id. at 2.

<sup>14</sup>Stipulation, Exhibit 8.

Staff's proposed present value methodology, but for the purpose of reaching settlement in this case, it was willing to accept the results of that methodology for the limited purposes of this case.<sup>15</sup>

Mr. Ritchie also addressed the Seasonal Residential rate schedule.<sup>16</sup> He concurred with Staff's conclusion that the Residential and Seasonal Residential schedules should not be merged, and represented that a merger would result in members of one class subsidizing members of another class. He asserts that it would be particularly inappropriate to merge two classes with diverse usage characteristics at a time when the Cooperative is preparing for competition. Shenandoah also agreed to provide the Commission with a report on the results of the ODEC load studies specifically comparing the Seasonal Residential and Residential classes. At that time Mr. Ritchie advised that the Cooperative would recommend any changes in the classifications supported by the studies.<sup>17</sup>

Staff and the Cooperative initially took very divergent positions on the allocation of plant, revenues, and expenses between the generation and transmission ("G&T") functions and the distribution function in the functional separation plan.<sup>18</sup>

At the hearing on September 10, 2001, Staff and the Cooperative advised that they had reached an agreement on all issues in these cases. They filed a Stipulation<sup>19</sup>, and offered it for the Commission's consideration. The Stipulation and supporting schedules are attached hereto as Appendix A. Based on the Stipulation, all of the prefiled testimony was made a part of the record without being subjected to cross-examination. In reaching the compromise contained therein, Staff considered the particular circumstances of Shenandoah and its customer load. Staff and the Cooperative agree that the Stipulation will allow the Cooperative to earn a fair and reasonable rate of return; provide fair and reasonable rates, terms, and conditions of service to its customers; and will result in a reasonable allocation of plant, revenues, and expenses between the G&T and distribution functions of the business.

The Stipulation provides for additional annual revenues of \$2,233,322, an increase of approximately 5.43%, which allows the Cooperative an opportunity to earn a 10.31% rate of return. The Cooperative agreed to use a modified rate design based on Staff witness Henderson's testimony including changes to the energy rate blocks for the Residential and Seasonal Residential classes.

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<sup>15</sup>Exhibit ARR-4, at 3-4.

<sup>16</sup>Id.

<sup>17</sup>Id. at 4.

<sup>18</sup>Staff Report, Exhibit 10 and Shenandoah Comments, Exhibit 9.

<sup>19</sup>Stipulation, Exhibit 8.

Pursuant to the Stipulation, the percentage increase for each customer class would be as follows:

CLASS	DESCRIPTION	REVENUE	INCREASE	PERCENT INCREASE
Schedule A	Residential	\$27,175,491	1,974,142	7.83%
Schedule B	General Service	\$ 6,697,573	(5,092)	-0.08%
Schedule C	Churches	\$ 237,607	(1,013)	-0.42%
Schedule S	Seasonal Residential	\$ 600,496	101,430	20.32%
Schedule LP	Large Power	\$ 7,535,362	7,678	0.10%
Schedule PC-1	Peak Control	\$ 381,617	(1,066)	-0.28%
Schedule Y8	Yard Lights	\$ 288,405	60,319	26.45%

For purposes of settling the functional separation case, Shenandoah accepted, but did not agree with, the Staff allocations of revenues, expenses, and rate base between the G&T and distribution functions with several agreed upon exceptions. Staff and Shenandoah agreed that (1) the transition costs and the load management depreciation expenses should be allocated to distribution, and (2) interest on customer deposits and uncollectible expenses should be allocated between G&T and distribution based on an allocation factor of .57405. Based on that agreement approximately \$248,500 in revenues should be moved from distribution to the G&T function. Staff and Shenandoah also agreed to Staff's unbundling method with the changes to Schedule LP Large Power and Schedule PC-2 Peak Control set forth in the Stipulation.

## **DISCUSSION**

Shenandoah is an electric distribution cooperative providing service predominantly in the Counties of Augusta, Rockingham, and Shenandoah, Virginia, and the Counties of Hardy, Hampshire, and Grant, in West Virginia. It receives its power supply from ODEC, of which it is a member, and the Southeastern Power Administration.

No issues in controversy remained between Staff and the Cooperative by the hearing date in this case. However, one issue raised in written letters and by the public witness who appeared at the hearing remained in contention. Barbara Harrison offered comments at the hearing to criticize the separate treatment of full-time residents and seasonal customers defined as residents who do not live in their home nine or more months out of the year.<sup>20</sup> Ms. Harrison and her sister bought a second home in Fort Valley in 1992.<sup>21</sup> The home had been occupied as a full-time residence for many years prior to their purchase. She acknowledged that she raised an informal complaint about the distinction between permanent full-time residents and part-time residents in 1993. She recognized that the Commission dismissed the complaint agreeing with the findings of a hearing examiner that she had not met her burden of proof to sustain the complaint. However, she emphasized that the Commission ordered the Cooperative to conduct a study to evaluate the rate classification and its rate design, the cost of service and pricing, and the usage characteristics of the

<sup>20</sup>Ms. Harrison (then known as Linden) raised this issue as a complaint in 1993, and although she is currently classified as a residential customer, the issue continues to concern her as an unreasonable and unfair classification.

<sup>21</sup>Transcript 44.

seasonal customer.<sup>22</sup> When the study was submitted, the Staff concluded that there was insufficient data to support any definitive statement concerning the difference between the two classes.<sup>23</sup> At that time Staff, however, did recommend that the rate block over 300 kWh be gradually reduced so that seasonal users who consumed more energy would be charged the same for energy at those higher levels of consumption as residential users.

Ms. Harrison now complains that grouping customers into a seasonal class based on the location of their permanent residence is unfair.<sup>24</sup> She observed that a large majority of the seasonal customers were campground occupants, used under 300 kilowatts per month, and have very little or no usage during the late fall through early spring. She testified that 200 to 300 customers are second-home owners and are also classified as seasonal users but consume over 700 kWh every month throughout the year. She argues that when the Cooperative averaged those two very different usage patterns for the seasonal class it was not surprising that mathematically it arrived at a low monthly average. The low average, she contends, does not fairly represent second-home owners' consumption. The issue she asserts is that the customers included in the seasonal rate schedule are not homogeneous.<sup>25</sup>

Ms. Harrison submitted alternatives that the Commission should consider to address her concern. First, she suggested that the two classes could be combined and the Commission could eliminate the seasonal class. Another alternative would be to base the seasonal characterization on a determination of whether the customer expected to use their home three consecutive months or fewer. If the customer expected to use their home more than three consecutive months they should be considered a residential customer. Third, she suggested that the words "permanent" and full-time" could be eliminated, an approach similar to her second solution.

The Cooperative asserts that the Residential and Seasonal Residential rate schedules should not be merged at this time.<sup>26</sup> Mr. Ritchie testified that the cost of serving the seasonal customers is greater than the cost to serve the residential class. He acknowledges that the cost of energy is essentially the same for both classes.<sup>27</sup> The difference, he asserts, is in the fixed costs of service. The Cooperative decided to recover the fixed costs in the basic customer charge and the first usage block.<sup>28</sup> He testified that the Cooperative redesigned its charges in 1994 and all usage above 300 kWh per month is charged the same amount.<sup>29</sup>

Mr. Ritchie testified that the average usage for the seasonal customer class was 204 kWh per month and over 1300 kWh for the residential class user.<sup>30</sup> He further testified that roughly 89% of the customers in the seasonal class had low usage three or more months of the year.<sup>31</sup> Specifically,

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<sup>22</sup>*Commonwealth of Virginia, ex rel. Barbara H. Linden, et al. v. Shenandoah Valley Electric Cooperative*, Case No. PUE930004, 1994 S.C.C. Ann. Rep. 347.

<sup>23</sup>Transcript at 21.

<sup>24</sup>Transcript at 22.

<sup>25</sup>Transcript at 29.

<sup>26</sup>Exhibit ARR-4, at 3.

<sup>27</sup>Transcript 56-57.

<sup>28</sup>*Id.*

<sup>29</sup>*Id.*

<sup>30</sup>Transcript 57.

<sup>31</sup>Transcript 61.



he represented that 426 out of 1450 customers had three or more consecutive months of zero usage.<sup>32</sup>

The Cooperative's cost of service study also revealed that the rate of return generated from the Residential class was 1.22%; after the proposed increase the expected return rose to 5.93%. Before the proposed increase the rate of return generated from the Seasonal Residential class was a negative 1.31%. After the proposed increase, the study showed an increase in the expected rate of return from that class to 5.97%. Mr. Ritchey finally reported that ODEC and the Cooperative are in the process of developing load profiles as they prepare for restructuring and retail access choice in Virginia.<sup>33</sup> They have already concluded that Shenandoah probably needs more classes of customers based on load characteristics that are different.<sup>34</sup>

Ms. Henderson also addressed this issue. Ms. Henderson described the Cooperative's Seasonal Residential schedule under which it serves any customer requesting service to a home that is not his or her primary place of residence. The Availability section of the Seasonal Residential tariff provides:

Available to member/customers for normal uses in single-family, non full-time occupied residences.<sup>35</sup>

The Availability section of the Residential Service tariff provides in part:

Available to member/customers for normal uses in full-time permanent, single family residences...where such residential structure is occupied on a full-time basis as the principal place of residence for at least nine (9) months per year.<sup>36</sup>

Ms. Henderson confirmed that the customer charge and first block energy rates for the Seasonal Residential service are higher than those charged for permanent Residential service but that the charges for the second energy block (consumption over 300 kWh) for both schedules are the same.

Ms. Henderson next reviewed the usage characteristics of customers on the seasonal rate. Ms. Henderson reported that 1,191 of the 1,450 seasonal customers use 300 kW or less each month. She also estimated that the Cooperative would lose approximately \$203,000 annually if the Seasonal Residential schedule were merged into the Residential schedule.<sup>37</sup> She further verified that 426 account holders had three or more consecutive months of zero usage.

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<sup>32</sup>Transcript 65.

<sup>33</sup>Transcript 59.

<sup>34</sup>Id.

<sup>35</sup>Exhibit RMH-7, at 7.

<sup>36</sup>Id.

<sup>37</sup>Id. at 8-11.

Ms. Henderson also looked at the Cooperative's class cost allocations. She reported that the cost-based seasonal customer charge of \$22.14 per month is slightly higher than the residential customer charge of \$20.81.<sup>38</sup> She reported that one of the factors contributing to the higher customer cost for the seasonal customer appeared to be a greater necessity for multiple meter readings during the year. Cooperative personnel read meters if customer readings are not received for two or more months.<sup>39</sup>

Ms. Henderson also confirmed that ODEC is conducting load studies on each of the classes served by its cooperatives, and as part of the study ODEC is installing a number of load meters on Seasonal Residential customers in Shenandoah's territory.<sup>40</sup> She argues that merging the Seasonal Residential and the Residential classes would require all of the existing residential customers to subsidize the seasonal users and therefore she recommends the Commission postpone any action now and wait to review the data from the load studies when it is available. She recommended that the Commission require Shenandoah to provide a summary report of the results of the load studies comparing the two classes. The Cooperative should recommend any changes in the classification or designation of the two classes that may be supported by the load studies at that time.

I agree with Staff witness Henderson's recommendation. It is apparent that there are two very different types of customers served under the Seasonal Residential tariff, the second-home owner who occupies his home throughout the year, and the truly seasonal user who consumes zero kWh three or more months of the year. However, the Cooperative has collected and presented its class revenue and cost data in this case on the basis of class averages. Thus, as Ms. Harrison testified, there may be a number of users served under this schedule that occupy their second homes many weekends throughout the year, and consequently, may have somewhat consistent consumption patterns. However, there is no cost data to clearly define the revenue and cost similarities to or differences from permanent residential customers or the truly seasonal users who consume no electricity three or more consecutive months each year. I am concerned with the manner that the Cooperative has collected its data on this class, and that it steadfastly has refused to admit that there may be a difference in load and consumption characteristics between the two very different types of customers served under the same schedule, but this record can not support a conclusion that load and usage patterns of second-home owners who occupy their home throughout the year more closely resembles residential customers. The only solution is to collect the necessary data as recommended by Ms. Henderson. The load data may support redefining the availability sections of the two classes or it may reveal, as suggested by Mr. Ritchie, that the solution is not merging classes but creating more classes that better match customers with similar usage and load characteristics. Unfortunately, a solution can not be determined on this record, but the Cooperative should be directed to facilitate and report load data specifically addressing the usage characteristics of second home owners.

Finally, the Stipulation, jointly offered by the Cooperative and Staff, offers a fair and reasonable resolution to the issues in the captioned cases; will provide just and reasonable rates, terms and conditions of service; and will result in a reasonable allocation of expenses and revenues

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<sup>38</sup>Id. at 9.

<sup>39</sup>Id. at 10.

<sup>40</sup>Id.

between the G&T and distribution functions of the Cooperative's business. The Stipulation is supported by the record and should be adopted.

## **FINDINGS AND RECOMMENDATIONS**

(1) The use of a test year ending December 31, 1999, and the Staff's methodology to adjust for the rate period from 2001 through 2007 is proper in this proceeding and complies with the requirements of the Restructuring Act;

(2) The Cooperative's average 2001-2007 rate period operating revenues, after all adjustments, were \$41,130,209;

(3) The Cooperative's average rate period operating expenses, after all adjustments, were \$36,125,216;

(4) The Cooperative's average rate period operating margin, after all adjustments, was \$5,004,993;

(5) The Cooperative's average rate period total margin, after all adjustments, was \$2,470,859;

(6) The Cooperative's current rates produced a TIER on adjusted rate base of 1.79;

(7) The Cooperative's TIER should be set at 2.5;

(8) The Cooperative's application requesting an annual increase in revenues of \$2,830,443 is unjust and unreasonable because it will generate a TIER greater than 2.5;

(9) The Cooperative requires \$2,233,322 in additional gross annual jurisdictional revenues to earn a TIER of 2.5;

(10) As set forth in the Stipulation, the modified rate design recommended by Staff and attached to the stipulation as Exhibit B with the exception of the Schedule PC-2 Peak Control rate is just and reasonable;

(11) The Cooperative's proposed rate of \$0.01815 for Schedule PC-2 Peak Control is just and reasonable;

(12) The revisions to the terms and conditions of service as set forth in the Stipulation are just and reasonable and should be implemented;

(13) The Cooperative should file permanent rates designed to produce the additional revenues found reasonable using the revenue apportionment and rate design methodologies contained in the Stipulation;

(14) The Cooperative should be required to refund, with interest, all revenues collected under its interim rates in excess of the amounts found just and reasonable herein;

(15) The functional separation plan set forth in the Stipulation provides a fair and reasonable allocation of plant, revenues and expenses between the G&T and distribution functions of the Cooperative's business; and

(16) The Cooperative should report the results of the load studies currently being conducted and should specifically address the usage characteristics of second home owners.

I therefore **RECOMMEND** the Commission enter an order that:

- (1) **ADOPTS** the findings contained in this Report;
- (2) **GRANTS** the Cooperative an increase in gross annual revenues of \$2,233,322;
- (3) **DIRECTS** the prompt refund of all amounts collected under interim rates in excess of the rate increase found just and reasonable herein; and
- (4) **APPROVES** the functional separation plan set forth in the Stipulation.

### **COMMENTS**

The parties are advised that any comments (Section 12.1-31 of the Code of Virginia and 5 VAC 5-20-120 C) to this Report must be filed with the Clerk of the Commission in writing, in an original and fifteen (15) copies, within fourteen (14) days from the date hereof. The mailing address to which any such filing must be sent is Document Control Center, P.O. Box 2118, Richmond, Virginia 23218. Any party filing such comments shall attach a certificate to the foot of such document certifying that copies have been mailed or delivered to all counsel of record and any such party not represented by counsel.

Respectfully submitted,

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Deborah V. Ellenberg  
Chief Hearing Examiner